

**NEW JERSEY PUBLIC  
BROADCASTING AUTHORITY**

Combining Financial Statements

June 30, 2010

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## Table of Contents

June 30, 2010

	<u>Page Number</u>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Required Supplementary Information)</b> .....	1-7
<b>INDEPENDENT AUDITORS' REPORT</b> .....	8-9
<b>FINANCIAL STATEMENTS</b>	
COMBINING STATEMENT OF NET ASSETS.....	10
COMBINING STATEMENT OF SUPPORT, REVENUES AND EXPENSES, AND CHANGES IN NET ASSETS .....	11
COMBINED STATEMENT OF CASH FLOWS .....	12
NOTES TO COMBINING FINANCIAL STATEMENTS.....	13-20
<b>SUPPLEMENTARY INFORMATION</b>	
COMBINED SCHEDULES OF FUNCTIONAL EXPENSES.....	21
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING.....	22
SCHEDULE OF FINDING AND RESPONSE .....	23
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> .....	24-25

# **NEW JERSEY PUBLIC BROADCASTING AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

### **Financials**

The financial management of the New Jersey Public Broadcasting Authority (alone, the "Authority") and its related non-profit entity, the Foundation for New Jersey Public Broadcasting, Inc. (alone, the "FNJPB" or "Foundation"), (together, the "NJPBA"), has prepared this narrative overview and analysis of the individual and combined financial activities for the fiscal year ended June 30, 2010, for the readers of these financial statements. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage the readers to consider the information presented here in conjunction with the financial statements as a whole.

Although the financial statements presented here are a combination of the financial statements of the Authority and the FNJPB, an independent audit of the FNJPB activities was conducted in conjunction with that of the Authority.

### **Financial Highlights**

At June 30, 2010, on a combined basis, the change in NJPBA net assets was \$52,566 which is an increase of \$5,058,845 compared to the prior year. The increase was primarily due to a significant increase in Authority non-state support resulting from a major lease agreement on one of its educational broadband services ("EBS") licenses to Clearwire Communications, LLC offsetting decreases in State of New Jersey support, Foundation underwriting grants and partner agency fee for service contracts attributable to the weak state of the economy. The signing fee from the lease agreement amounted to \$3,000,000 and represented a major component in helping the Authority close its budget year in balance. The additional revenue was also accompanied by significant reductions in general operating and salary costs, including attrition.

### **Overview of the Combining Financial Statements**

This discussion and analysis is intended to serve as an introduction to the NJPBA combining financial statements, which are comprised of the basic financial statements and the accompanying notes to the financial statements of both the Authority and the FNJPB. Since the Authority is comprised of a single enterprise fund, no fund-level financial statements are shown. This report also contains footnote disclosures concerning the Authority's related-party transactions and "in-kind" revenue and expense.

### **Basic Combining Financial Statements**

The basic combining financial statements are designed to provide readers with a broad overview of the NJPBA's finances in a manner similar to that which would be provided for a private sector business.

The combining statement of net assets presents information on all of the NJPBA assets and liabilities, with the difference between the two reported as net assets. Over time, an increase or decrease in net assets may serve as a useful indicator of whether or not the financial positions of the Authority and the FNJPB are improving or deteriorating.

Net assets increase when revenues exceed expenses. An increase in liabilities without corresponding increases to assets results in a decrease to net assets and a deteriorating financial position. A poor economy and steadily decreasing state support, together with increases in fixed state obligations over the past three years has resulted in a decrease in the net assets of NJPBA.

## **NEW JERSEY PUBLIC BROADCASTING AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)**

#### **Basic Combining Financial Statements (Continued)**

The combining statement of support, revenues and expenses and changes in net assets presents information showing how a government entity's net assets changed during the fiscal year. Changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (*e.g. earned but unused vacation leave and deferred revenue*).

Though not required, included in the financial statements is a combined schedule of functional expenses for purposes of additional analysis. The 2006 Pension Protection Act increased focus on functional expense allocations of non-profit organizations. Presenting this information on a combined basis provides a more meaningful depiction of operating expenditures as a whole, rather than separately, given the interdependence of the two organizations.

As required, and in order to qualify for its community service grants, the NJPBA files an annual financial report with the Corporation for Public Broadcasting ("CPB") and an annual public broadcasting system station activity benchmark survey ("SABS"). In comparison to other public broadcasters that have operations combined, the ratios for administrative, fundraising and production costs are vastly different from the ratio allocations of the two organizations comprising NJPBA reported separately. Please refer to the supplemental combining statement of functional expenses included in this report, which displays a more accurate and comparable report of operating efficiencies when compared to other public broadcasters or nonprofits.

#### **Notes to the Combining Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain footnote disclosures concerning the Authority's treatment of the State-owned building it occupies and the treatment of the related in-kind occupancy value and debt service interest on the facility associated with the debt, as well as information on related party transactions with the FNJPB.

Included in the notes to the financial statements is a discussion of the Authority's progress in meeting FCC mandates for all commercial and public broadcasters relating to the conversion from analog to digital transmission and the estimated completion costs.

The NJPBA holds non-commercial, educational television and radio licenses, as well as several educational broadband service ("EBS") licenses. These licenses were granted to the NJPBA by the FCC for public service purposes. In the past some licenses have been leased for other purposes, with resulting revenues helping to fund public service activities.

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

### Financial Analysis and Capital Assets

Net assets may serve, over time, as a useful indicator of a government's financial position. On a combined basis, the NJPBA's assets exceeded liabilities by \$6,494,212 at the close of fiscal year 2010, an increase from the previous year of \$52,566.

Of this amount, \$5,882,137 represents the Authority's net asset balance, an increase of \$50,838 attributable to network operations. The FNJPB net asset balance of \$612,075 is an increase of \$1,728 attributable to Foundation operations.

The largest portions of the Authority's assets reflect its investment in capital assets (*i.e. transmission towers and studio broadcasting equipment less accumulated depreciation*), and amounts due from the FNJPB. The Authority uses these assets to provide public broadcasting services, operate as the State's emergency broadcaster, to liquidate current liabilities and for any other essential spending necessary to maintain transmission of its signal twenty-four hours per day, seven days a week.

The NJPBA's combined investment in capital assets as of June 30, 2010, net of total accumulated depreciation equals \$4,972,200. This represents a decrease of \$727,520 from the prior fiscal year most of which is attributable to the Authority's asset depreciation. During fiscal year 2010 Authority asset acquisitions amounted to \$63,777.

Federal NTIA grant matching funds and other capital grants have provided the Authority with the necessary funds to acquire the equipment needed to comply with the minimum FCC requirements. It is estimated that approximately \$10,000,000 would be required to complete the full digital conversion of the Network's mostly analog production facility. In light of the State's fiscal difficulties, future funding from State sources is unlikely. If in a position to do so financially, the Authority will apply for federal matching grants, while the FNJPB will work on seeking the major funding necessary to meet the Authority's future capital needs.

The following are the condensed combined statements of net assets as of June 30, 2010 and 2009:

### Balance Sheets

	2010	2009
Current and other assets		
Capital assets	\$ 4,905,263	\$ 3,993,794
Total assets	<u>4,972,200</u>	<u>5,699,720</u>
	<u>\$ 9,877,463</u>	<u>\$ 9,693,514</u>
Current liabilities		
	<u>\$ 3,383,251</u>	<u>\$ 3,251,868</u>
Net assets:		
Unrestricted	6,444,212	6,391,646
Temporarily restricted	-	-
Restricted	<u>50,000</u>	<u>50,000</u>
Total net assets	<u>6,494,212</u>	<u>6,441,646</u>
Total liabilities and net assets	<u>\$ 9,877,463</u>	<u>\$ 9,693,514</u>

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

### Balance Sheets (Continued)

Of the \$4,684,514 in current assets, \$489,716 represents the Authority's cash balances held by the State of New Jersey and \$1,879,649 in FNJPB cash and short-term liquid investments, an increase of \$25,681 from the prior year, mostly due to tighter constraints on spending.

Of the \$4,972,200 in net capital assets, \$4,887,438 represents the Authority's investment in digital equipment and infrastructure at its transmission tower sites in Trenton, Montclair, Camden and New Brunswick in compliance with FCC digital requirements, a decrease of \$678,264 on a net basis over the prior year.

Of the NJPBA's \$3,383,251 in current liabilities, \$2,055,895 represents the Authority's accounts payable and accrued expenses, an increase of \$137,629, mainly due to the timing of payments made at fiscal year end. In addition \$1,327,356 represents amounts due to the State of New Jersey, an increase of \$707,337, mainly due to the timing of the payment of the Authority's fiscal year 2010 Lottery Commission contract which was paid in July 2010.

The following are the condensed combined statements of support, revenues and expenses and changes in net assets at June 30, 2010 and 2009.

### Statements of Support, Revenue and Expenses, and Changes in Net Assets

	2010	2009
Support and revenues	\$ 17,568,617	\$ 14,786,210
Operating expenses	<u>28,838,412</u>	<u>31,469,582</u>
Excess of expenses over revenue before general appropriations, re-appropriations, and contributed services and facilities from State of New Jersey	<u>(11,269,795)</u>	<u>(16,683,372)</u>
General appropriations, re-appropriations and contributed services and facilities from State of New Jersey	<u>11,322,361</u>	<u>11,677,093</u>
Change in net assets	<u>52,566</u>	<u>(5,006,279)</u>
Net assets, beginning of year	<u>6,441,646</u>	<u>11,447,925</u>
Net assets, end of year	<u>\$ 6,494,212</u>	<u>\$ 6,441,646</u>

Support and revenues increased \$2,782,407 mainly due to the EBS license agreement, which offsets reductions in State of New Jersey funding, corporate underwriting, program grants and partner agency fee for service contracts.

Programming, production and broadcasting costs decreased \$1,668,023 including depreciation while total support services decreased by \$963,147. The Authority received \$354,732 less in direct appropriations and contributed State-allocated benefits, facility and occupancy costs in 2010. The Authority incurred a \$526,000 State charge for services for utilities, security and building maintenance, unchanged from the prior year. Including this charge, administrative expenses declined by \$449,335 in 2010.

## NEW JERSEY PUBLIC BROADCASTING AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

#### Significant Events

In March of 2010, and in planning the State of New Jersey's fiscal 2011 budget, the Governor of New Jersey proposed to sell the Authority's assets or transfer the assets to a non-profit entity. In addition, the Governor has proposed total elimination of subsidies and support as of January 1, 2011. While the budget message to legislators and taxpayers was that New Jersey could no longer afford to be in the public broadcasting business, it appears to be the State's desire to see New Jersey Network continue to serve the citizens of New Jersey as a privately operated public broadcaster.

A Legislative Task Force on Public Broadcasting was created and the bi-partisan group held three public meetings. A report on the Task Force's results was issued October 15, 2010, recommending that the State of New Jersey, in agreement with the Governor, should no longer operate a Public Broadcasting entity. The Task Force agreed on the value of the services that NJN provides and questioned whether the licenses should remain with the state as well as whether there should be some continued financial support from the State. Given the complex nature of such a transition and in light of the practical, legal and logistical issues involved, the Task Force questioned the January 1, 2011, timeframe.

NJN's future entity will be determined by the Legislature and the Governor. At this writing the decision on the successor organization has not yet been determined.

#### Other Information

Prior to fiscal 2009, the Authority expensed the full cost of programming rights in the year they were acquired. Beginning in fiscal year 2009, the Authority changed the way it accounted for acquired programming licenses with the implementation of Statement of Financial Accounting Standards ("FAS") 63, "Financial Reporting by Broadcasters." The Authority now capitalizes and amortizes program material license agreements in accordance with financial reporting by broadcasters. As of June 30, 2010, NJPBA had \$250,692 remaining in current and non-current capitalized program rights.

The Authority received \$248,800 less in state appropriated funds for operations in fiscal year 2010, which was offset by increases in non-state revenue sources. The prior fiscal year required utilizing cash balances held by the State of \$1,761,179 to cover the more precipitous decline in State funding. Over the past five fiscal years the Authority has seen total cumulative reductions of \$4,709,000 in state funding. The FNJPB, amid an improving but still weak economy and the uncertainty surrounding NJPBA's future operator, experienced a \$281,000 decline in contributions and underwriting revenues, a significant improvement over that of fiscal 2009 which saw a decline of over \$2,550,000 from that of fiscal 2008.

As previously disclosed, the Authority successfully negotiated a long-term lease agreement for specified educational broadband service licenses with Clearwire Communications, yielding an initial \$3,000,000 payment upon signing and approximately \$1,000,000 annually thereafter, with annual escalators, over the life of the contract.

## **NEW JERSEY PUBLIC BROADCASTING AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)**

#### **Other Information (continued)**

Under an agreement negotiated between the prior administration and state worker unions in fiscal year 2009, a salary freeze and ten (10) unpaid furlough days were mandated for all state workers during the fiscal years 2009 and 2010. In exchange, state workers, including Authority employees, were granted seven (7) paid leave days accruing to the fiscal year that began on July 1, 2010.

The FNJPB realized a small net surplus of \$1,728 in fiscal 2010 as compared to the prior year when operating expenses exceeded revenue by \$872,470 before a supplemental grant of \$1,500,000 to the Authority. The FNJPB implemented additional cost cutting measures amounting to \$793,000 on top of nearly \$1,700,000 realized in fiscal 2009 in continued response to the weak and difficult fundraising climate.

During fiscal year 2010, as in fiscal year 2009, the Authority was unable to purchase any major new transmitting and broadcasting equipment related to the digital conversion as capital funds were utilized for maintaining older equipment and to finance operations.

#### **Cash Flows**

On a combined net basis, net cash used in operating activities (before general appropriations) in fiscal year 2010 was \$4,538,181, compared to 2009 net cash used in operating activities of \$6,330,875 (before general appropriations).

Net cash provided by capital and related financing activities was \$552,539, due primarily to an increase in the amount due from the State, as compared to net cash provided by \$881,739 in 2009 due primarily to the conversion of FNJPB investments into cash equivalents.

#### **Budgetary Highlights**

The budget adopted prior to the beginning of fiscal year was not amended during the year; however, revenue and expenditure projections were periodically adjusted and revised forecasts issued during the fiscal year as new data became available.

On a combined basis for fiscal year 2010, exclusive of in-kind support, operating revenues (total support and revenues of \$17,568,617 plus general state appropriations of \$4,011,197), was \$21,579,814 as opposed to the combined budget of \$22,041,300. The difference between actual versus budgeted revenue are highlighted by the following:



## NEW JERSEY PUBLIC BROADCASTING AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

#### **Budgetary Highlights (Continued)**

- The Authority received \$11,800 less than budgeted in State appropriations for operations.
- The Authority did not budget additional draw downs of FNJPB reserve balances to close an operating gap, which amounted to \$1,500,000 in fiscal year 2009.
- Media Productions and Facility Rental income was \$259,000 less than budget as statewide cuts led to further reductions in state agency billings.
- Tower lease revenue was \$305,000 higher than budget, including \$252,000 realized from the EBS/Clearwire Communications agreement, offsetting a \$260,000 shortfall in WNET news underwriting revenue.
- CPB Grants were \$170,000 higher than budgeted, including a one time federal fiscal stabilization allocation of \$243,000.
- Revenue from FNJPB membership support, concert events, and major and planned giving fell \$137,000 under the goal due to the poor economy and uncertainty surrounding the future of NJN.
- The FNJPB Benefit event revenue fell \$115,000 below budget due to the same factors.
- General Corporate support, due to the poor economy and the same factors impacting Media Production and Facility Rentals, was \$327,000 under budget.
- Local Production revenues were under budget by \$450,000, mainly due to the factors cited above and an understaffed Development team.

Combined NJPBA operations, production and support service expenses, excluding donated and in-kind services were \$21,527,248 versus the budgeted amount of \$22,234,200, mainly due to declines in payroll and benefit costs through attrition and lower production costs, a result of having received fewer production grants in fiscal year 2010.

A \$1,070,000 revenue shortfall in the FNJPB due to economic conditions was significantly offset by \$900,000 in expense reductions, mainly as a result of lower fundraising and development costs of \$363,000, savings of \$112,000 from converting the NJN guide to electronic distribution, reduced pledge programming expenses in support of the Authority of \$75,000, and reduced direct awards to the Authority of \$400,000.

Authority Programming, Production and Broadcasting costs were over budget by \$397,000 due mainly to unbudgeted payroll and benefit obligations related to the terms of an agreement between State of New Jersey worker unions and the former Governor as it concerned mandatory furlough days, and higher maintenance costs for aging infrastructure. This increase was offset by lower administrative and development expenses of \$670,000 due to lower insurance costs, professional service expenditures, facility maintenance and information technology costs.

#### **Requests for Information**

This financial report is designed to provide a general overview of the NJPBA's finances for all those with an interest therein. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Acting Executive Director of the New Jersey Public Broadcasting Authority, 25 South Stockton Street, Trenton, NJ 08608.

## INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners of  
New Jersey Public Broadcasting Authority

We have audited the accompanying combining statement of net assets of the New Jersey Public Broadcasting Authority (the "Authority") and the Foundation for New Jersey Public Broadcasting, Inc. (the "FNJPB") (combined herein and referred to as "NJPB") as of June 30, 2010, and the related combining statement of support, revenues and expenses, and changes in net assets and combined statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's and the FNJPB's respective managements. Our responsibility is to express an opinion on these combining financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combining financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Authority and the FNJPB as of June 30, 2010, and the combining results of their operations and combined statement of cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note L to the financial statements, it is uncertain if support will be provided to the Authority from the State of New Jersey after January 1, 2011. This raises substantial doubt about Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

Management's Discussion and Analysis and the budgetary comparison information on pages 1 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010 on our consideration of Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to decide the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The combined schedule of functional expenses on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mercaderes, P.C.*  
*Certified Public Accountants*

November 17, 2010

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## COMBINING STATEMENT OF NET ASSETS

June 30, 2010

	New Jersey Public Broadcasting Authority	Foundation for New Jersey Public Broadcasting, Inc.	Eliminations	Combined Totals
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 489,716	\$ 1,879,649	\$ -	\$ 2,369,365
Due from Foundation for NJ Public Broadcasting, Inc.	1,624,586	-	(1,624,586)	-
Accounts receivable, net	1,739,738	482,722	-	2,222,460
Programming rights	92,689	-	-	92,689
Total current assets	<u>3,946,729</u>	<u>2,362,371</u>	<u>(1,624,586)</u>	<u>4,684,514</u>
Non-current assets				
Capital assets	4,955,950	16,250	-	4,972,200
Prepays and other assets	-	12,746	-	12,746
Programming rights long-term	158,003	-	-	158,003
Permanently restricted investments	-	50,000	-	50,000
Total non-current assets	<u>5,113,953</u>	<u>78,996</u>	<u>-</u>	<u>5,192,949</u>
Total assets	<u>\$ 9,060,682</u>	<u>\$ 2,441,367</u>	<u>\$ (1,624,586)</u>	<u>\$ 9,877,463</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 1,851,189	\$ 204,706	\$ -	\$ 2,055,895
Due to the Authority	-	1,624,586	(1,624,586)	-
Due to the State of NJ	<u>1,327,356</u>	<u>-</u>	<u>-</u>	<u>1,327,356</u>
Total current liabilities	<u>3,178,545</u>	<u>1,829,292</u>	<u>(1,624,586)</u>	<u>3,383,251</u>
Net Assets				
Unrestricted				
Undesignated	5,882,137	-	-	5,882,137
Board designated	-	562,075	-	562,075
Permanently restricted	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total net assets	<u>5,882,137</u>	<u>612,075</u>	<u>-</u>	<u>6,494,212</u>
Total liabilities and net assets	<u>\$ 9,060,682</u>	<u>\$ 2,441,367</u>	<u>\$ (1,624,586)</u>	<u>\$ 9,877,463</u>

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## COMBINING STATEMENT OF SUPPORT, REVENUES AND EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

	New Jersey Public Broadcasting Authority	Foundation for New Jersey Public Broadcasting, Inc.	Eliminations	Combined
Support and revenues				
Contributions and grants	\$ -	\$ 3,680,584	\$ -	\$ 3,680,584
Underwriting	-	2,477,999	-	2,477,999
Community service grants from Corporation for Public Broadcasting	3,078,007	-	-	3,078,007
Programming rights	871,429	-	-	871,429
Workforce development	411,560	-	-	411,560
Grants	2,917,425	-	(2,846,643)	70,782
Telecasting production/other rental income	115,000	-	-	115,000
Tower rentals	4,555,455	-	-	4,555,455
Facilities rentals/contract productions	2,241,583	-	-	2,241,583
Program and video sales and rentals	59,241	-	-	59,241
Investment return	-	6,977	-	6,977
Total support and revenues	<u>14,249,700</u>	<u>6,165,560</u>	<u>(2,846,643)</u>	<u>17,568,617</u>
Expenses				
Program services				
Programming and production	11,680,262	-	-	11,680,262
Awards	-	4,090,214	(2,846,643)	1,243,571
Broadcasting	<u>8,732,720</u>	-	-	<u>8,732,720</u>
Total program services	<u>20,412,982</u>	<u>4,090,214</u>	<u>(2,846,643)</u>	<u>21,656,553</u>
Supporting Services				
Underwriting and grant solicitations	798,116	-	-	798,116
Fundraising and membership development	-	1,806,598	-	1,806,598
General and administrative	<u>4,310,125</u>	<u>267,020</u>	-	<u>4,577,145</u>
Total supporting services	<u>5,108,241</u>	<u>2,073,618</u>	-	<u>7,181,859</u>
Total expenses	<u>25,521,223</u>	<u>6,163,832</u>	<u>(2,846,643)</u>	<u>28,838,412</u>
Excess of expenses over revenues before general appropriations and contributed services and facilities	(11,271,523)	1,728	-	(11,269,795)
General appropriations and contributed services and facilities from State of New Jersey	<u>11,322,361</u>	-	-	<u>11,322,361</u>
Change in net assets	50,838	1,728	-	52,566
Net assets, beginning of year	<u>5,831,299</u>	<u>610,347</u>	-	<u>6,441,646</u>
Net assets, end of year	<u>\$ 5,882,137</u>	<u>\$ 612,075</u>	<u>\$ -</u>	<u>\$ 6,494,212</u>

See notes to combining financial statements.

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## COMBINED STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

Cash Flows from Operating Activities	
Support and revenues	\$ 16,464,030
Investment return	6,977
Program support services	<u>(21,009,188)</u>
Net cash used in operating activities	<u>(4,538,181)</u>
Cash Flows from Non-Capital Financing Activities	
General appropriations	<u>4,011,197</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of equipment (net of retirements) and program rights	(154,797)
Net increase in due to State of New Jersey	<u>707,336</u>
Net cash provided by capital and related financing activities	<u>552,539</u>
Cash Flows provided by Investing Activities	
Proceeds from sale of investments, net of purchases	<u>126</u>
Net increase in cash and cash equivalents	25,681
Cash and cash equivalents, beginning of year	<u>2,343,684</u>
Cash and cash equivalents, end of year	<u>\$ 2,369,365</u>
Reconciliation of Excess of Expenses over Revenues before General Appropriations and Contributed Services and Facilities to Net Cash Used in Operating Activities	
Excess of expenses over revenues before general appropriations and contributed services and facilities	\$(11,269,795)
Adjustments	
Net realized and unrealized investment losses	(126)
Bad debts	30,255
Contributed services and facilities from State of New Jersey	7,311,164
Depreciation	791,297
Change in assets and liabilities	
Accounts receivable	(836,200)
Prepays and other assets	11,178
Accounts payable and accrued expenses	137,628
Deferred revenue	<u>(713,582)</u>
Net cash used in operating activities	<u>\$ (4,538,181)</u>

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## NOTES TO COMBINING FINANCIAL STATEMENTS

### A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Activities**

The New Jersey Public Broadcasting Authority (the "Authority"), located in Trenton, New Jersey, is an agency "in but not of" the Department of State of the State of New Jersey. The Authority is responsible for providing non-commercial educational television, radio, internet and public broadcasting services and coordinating advisory assistance to state, local and regional agencies on matters pertaining to public broadcasting. The Authority holds authorizations and licenses from the Federal Communications Commission. Programs are produced at its Trenton and Newark studios and on location. Through memberships and affiliations, the Authority has access to programs from the Public Broadcasting Service, the American Program Service, National Public Radio, Public Radio International, and various audio and videotape libraries.

The Foundation for New Jersey Public Broadcasting, Inc. (the "FNJPB") was established to develop broad community interest in, involvement with, and volunteer service to public broadcasting and to generate financial support, sponsorship and/or assistance with fundraising projects for the benefit of the Authority and its several purposes. The FNJPB solicits funds in the name of, and with approval from, the Authority.

#### **Significant Accounting Policies**

##### *Basis of Combination*

The accompanying combining financial statements of the New Jersey Public Broadcasting Authority include the accounts of the Authority (single entity) and the FNJPB (together, "NJPBA"). Inter-entity balances and transactions have been eliminated in the combined totals. Combining financial statements are presented based on economic interest. The Authority has economic interest in the FNJPB, since the FNJPB holds resources to be used for the benefit of the Authority.

##### *Basis of Accounting*

The combining financial statements of Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recognized when incurred.

In its accounting and financial reporting, the Authority follows the pronouncements of the Government Accounting Standards Board ("GASB") and other entities that promulgate accounting principles according to a hierarchy of sources of accounting principles. Per GASB Statement 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, priority is established as to which source of accounting principles to utilize in determining proper accounting treatment. The hierarchy is as follows: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants ("AICPA") Industry Audit and Accounting Guides and AICPA

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## NOTES TO COMBINING FINANCIAL STATEMENTS

### A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statements of Position, if applicable and cleared by GASB; AICPA Practice Bulletins, if applicable and cleared by GASB; Implementation Guides published by the GASB; AICPA pronouncements that are not specifically applicable to state and governmental entities; Financial Accounting Standards Board ("FASB") Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure (issued on or before November 30, 1989). The Authority has elected not to follow FASB pronouncements issued after November 30, 1989. The Authority follows the hierarchy in determining accounting treatment.

Financial statement presentation for the FNJPB follows the recommendations of the Financial Accounting Standards Board in its *Statements of Financial Accounting Standards*. The FNJPB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The combining totals present the combining financial position, changes in net assets and cash flows of the Authority and the FNJPB.

#### *Public Support and Revenue Recognition*

Contributions and underwriting are recognized when the donor makes an unconditional promise to give to the FNJPB that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give (underwriting) and are recorded at their net realizable values. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present values of their net realizable values, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

Conditional promises to give are recognized by the FNJPB when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported by the FNJPB as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenues and expenses, and changes in net assets as net assets released from restrictions.

Funds received for services and capital funding are classified as deferred revenues and deferred capital funding until expended for their purposes since they are conditional. Funds received from federal or state grants are recorded as refundable advances until spent at which time the revenue is recognized.



# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## NOTES TO COMBINING FINANCIAL STATEMENTS

### A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Cash and Cash Equivalents*

For the purpose of the combined statement of cash flows, cash equivalents includes highly liquid debt instruments with original maturities of three months or less. In addition, the statement of cash flows excludes permanently restricted cash.

#### *Accounts Receivable*

The change in net assets is charged with an allowance for estimated uncollectible amounts based on past experience and an analysis of current amounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *Program Licenses*

The Authority purchases and capitalizes programming licenses for certain programs from the Public Broadcasting Service and other sources. These costs are amortized into expense based on the estimated useful lives of the programs using an accelerated method since the first broadcast of the program is more valuable than its reruns.

#### *Capital Assets*

Transmission antenna and towers, studio and other equipment, and furniture and fixtures are recorded at cost, except for donated items, which are recorded at their fair market values on the dates of donation, except for buildings (see Note E). Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Transmission antenna and towers	7-20 years
Studio and other equipment	5-10 years
Furniture and fixtures	5-10 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

#### *Income Taxes*

The FNJPB has received a determination letter from the Internal Revenue Service concluding that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is a public charity under Section 509(a)(1) of the Internal Revenue Code and qualifies for deductible contributions as provided in Section 170(b)(1)(A). In addition, since the Authority is an entity of the State of New Jersey, it is exempt from federal and state income taxes.

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## NOTES TO COMBINING FINANCIAL STATEMENTS

### A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Foundation adopted this new guidance for the year ended June 30, 2010. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2007.

#### *Functional Allocation of Expenses*

The costs of providing programming, broadcasting and support services for the Authority have been summarized on a functional basis in the combining statement of support, revenues and expenses, and changes in net assets. Accordingly, certain operating costs have been allocated among functional categories. On a combining basis, the Authority is comprised of two organizations. The Authority's primary services are programming, production and broadcasting while the FNJPB is primarily a fundraising organization – virtually all fundraising costs are incurred by FNJPB. Expenses reported by the Authority and the FNJPB as underwriting and grant solicitation costs, as well as general and administrative costs, are incurred in the support and promotion of the Authority and its several purposes.

### B. CONCENTRATIONS, RISK, AND UNCERTAINTIES

The Authority is a state agency and, for the year ended June 30, 2010, received a significant portion of its revenue and support, aggregating approximately \$12,800,000, from State of New Jersey agencies and a State of New Jersey commission, including donated services for administrative support and occupancy costs (see Note I).

For the year ended June 30, 2010, the FNJPB received 4% of its support and revenues from New Jersey state agencies.

Revenues received from Federal and New Jersey state agencies and expenditures made by the Authority may be subject to financial compliance requirements and possible audits by various Federal and State of New Jersey offices. In addition, State of New Jersey appropriations can change based on governmental determinations not within management's control.

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## NOTES TO COMBINING FINANCIAL STATEMENTS

### B. CONCENTRATIONS, RISK, AND UNCERTAINTIES (CONTINUED)

The FNJPB maintains cash and cash equivalent balances which may exceed federally insured limits. The FNJPB has not historically experienced any credit-related losses. The investments are primarily financial instruments which are monetary in nature as required by the guidelines of the FNJPB investment policy. Accordingly, interest rates have a more significant impact on performance than do the effects of general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. The investments are subject to risk conditions of the investments' objectives, stock market performance, interest rates, economic conditions and world affairs. The ongoing support from the state agencies is subject to risk conditions of the current economic climate.

Approximately 82% of the Authority's labor force is covered by collective bargaining agreements, which expire on June 30, 2011. Collective bargaining agreements are negotiated by the State, not the Authority.

### C. ACCOUNTS RECEIVABLE

The majority of underwriting receivables (pledges to give) are due from a broad base of corporate contributors, nonprofit organizations and various state entities.

Accounts receivable as of June 30, 2010, represent tower rental and media services receivables of the Authority and contributions and underwriting receivables of the FNJPB due in less than one year, as follows:

	Authority	FNJPB	Combined Totals
Tower rental	\$ 206,691	\$ -	\$ 206,691
Media services	1,285,439	-	1,285,439
New Jersey DOL	499,080	-	499,080
Contributions and underwriting	-	497,759	497,759
Allowances for uncollectible amounts	(251,472)	(15,037)	(266,509)
Net amounts receivable	<u>\$ 1,739,738</u>	<u>\$ 482,722</u>	<u>\$ 2,222,460</u>

### D. RESTRICTIONS ON NET ASSETS

Permanently restricted net assets of \$50,000 represent endowment funds restricted in perpetuity to continue the purpose of the FNJPB. Income generated by these assets can be used for operating activities.

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## NOTES TO COMBINING FINANCIAL STATEMENTS

### E. CAPITAL ASSETS

The combined activity in capital assets for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Studio and other equipment	\$22,572,657	\$ 63,777	\$ -	\$22,636,434
Furniture and fixtures	2,026,880	-	-	2,026,880
Transmission antenna and towers	13,829,841	-	-	13,829,841
Totals at historical cost	38,429,378	63,777	-	38,493,155
Less accumulated depreciation for studio and other equipment	20,852,264	364,261	-	21,216,525
Furniture and fixtures	1,892,862	49,256	-	1,942,118
Transmission antenna and towers	9,984,532	377,780	-	10,362,312
Total accumulated depreciation	32,729,658	791,297	-	33,520,955
Total capital assets	\$ 5,699,720	\$ (727,520)	\$ -	\$ 4,972,200

The NJPBA occupies a building and uses equipment in Trenton, New Jersey to which the State of New Jersey holds title. Occupancy and equipment use values have been calculated using the annual in-kind debt service interest for the facility paid by the State of New Jersey and the annual depreciation expense for the equipment calculated on acquisition price over the estimated useful lives of 39 and 10 years, respectively. For the year ended June 30, 2010, the value has been estimated at \$1,187,281 (see Note I).

Any disposal of Authority capital assets must be approved by the State of New Jersey.

### F. PROGRAMMING LICENSES

Programming licenses paid to the Public Broadcasting Service, ("PBS") and other program providers are reflected as assets and amortized over their estimated useful lives on accelerated basis, since the first broadcast of the program is more valuable than its reruns. At June 30, 2010, the unamortized costs of programming rights was \$250,692.

### G. PENSION PLAN

Employees of the Authority are state employees. As such, they participate in the state retirement plan. The Authority has no liability for unfunded plan benefits. Employees of the FNJPB have the option of participating in a FNJPB-sponsored defined contribution retirement plan.

## **NEW JERSEY PUBLIC BROADCASTING AUTHORITY**

### **NOTES TO COMBINING FINANCIAL STATEMENTS**

#### **G. PENSION PLAN (CONTINUED)**

As a condition of employment, all Authority full-time employees are required to be members of Public Employees' Retirement System ("PERS"). A member may retire on a service retirement allowance as early as age 60; no minimum service is required. The formula for benefits is an annual allowance in the amount equal to years of service, divided by 55, times the final average salary. For a few employees hired after July 1, 2008, the formula changes and their years of service is divided by 62, times the final average salary. Final average salary means the average of the salaries received by the member for the last three years of creditable membership service preceding retirement or the highest three fiscal years of membership service, whichever provides the largest benefit. Pension benefits fully vest on reaching 10 years of service. Vested employees who have established 25 years or more of creditable service may retire without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Covered Authority employees are required by PERS to contribute 5.5% of their salaries. State statute requires the Authority to contribute the remaining amounts necessary to pay benefits when due. The amount of the Authority's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest.

#### **H. GASB STATEMENT NUMBER 45 - ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION**

The Authority is a member of the State of New Jersey's cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, their portion of this liability and cost will be included in the State of New Jersey's Comprehensive Annual Financial Report ("CAFR"), on an annual basis.

As such, the liability of Authority's employees' are covered under the State plan.

Please refer to State website [www.state.nj.us](http://www.state.nj.us) for more information regarding the plan.

#### **I. CONTRIBUTED SERVICES AND FACILITIES**

For the year ended June 30, 2010, the Authority received donated services from the State of New Jersey of \$6,123,883 for administrative support and \$1,187,281 for occupancy and equipment costs (see Note E), which are included in non-operating revenues and programming and production expenses.

## **NEW JERSEY PUBLIC BROADCASTING AUTHORITY**

### **NOTES TO COMBINING FINANCIAL STATEMENTS**

#### **J. RELATED PARTY TRANSACTIONS**

Throughout the year, the FNJPB collects specific television and radio project underwriting that it subsequently provides to the Authority. For the year ended June 30, 2010, project underwriting revenues and awards of \$796,643 were recorded and awarded to the Authority.

The FNJPB paid the Authority an unrestricted general grant of \$500,000. In addition, the FNJPB paid dues of \$302,247 to the Public Broadcasting Service on behalf of the Authority during fiscal year 2010.

Certain services, such as the production of on-air pledge campaigns, data processing services, and facility space and utilities, are provided to FNJPB by the Authority under the general grant. The value of such services has not been ascertained.

The Authority's Acting Executive Director served as Acting President of the FNJPB. The Acting President was not a board member and retained no voting privileges, but did receive a \$25,000 stipend as per Board resolution.

#### **K. DIGITAL TELEVISION ("DTV") CONVERSION**

The Authority has met the Federal Communications Commission's (the "FCC"), minimum mandate for broadcasting television in digital format. The Authority is planning to invest an estimated \$10,000,000 to update analog equipment in order to broadcast digital television throughout New Jersey. This conversion is dependent upon future federal, state and other funding sources.

#### **L. SUBSEQUENT EVENTS**

At present the Governor of the State of New Jersey has proposed to sell the Authority's assets or transfer the assets to a non-profit entity. A Task Force on Public Broadcasting, ("Task Force") was created by the Governor to create a plan for the Authority's transformation. A report on the Task Force's results was issued October 15, 2010, recommending that the State of New Jersey, in agreement with the Governor, should no longer operate a Public Broadcasting entity but that the State of New Jersey continue to provide the support necessary to ensure the success of a privately operated NJN over a reasonable transition period. NJN's future entity will be determined by the Legislature and Governor. At this writing the decision on the successor organization has not yet been determined.

If the State of New Jersey determines to disband the Authority and/or sell its licenses and other operating assets, management of the Foundation may seek to acquire those assets, revise its mission and/or terminate the Foundation. Accordingly, the Foundation has designated its unrestricted net assets to cover these potential costs.

## **SUPPLEMENTARY INFORMATION**

**NEW JERSEY PUBLIC BROADCASTING AUTHORITY**  
**COMBINED SCHEDULES OF FUNCTIONAL EXPENSES**

Years Ended June 30,

	2010				2009
	Supporting Services		Program Services		
	Fundraising, Grant				
	Solicitation & Development		General and Administrative		
			Programming & Production		
			Broadcasting		Total
					Total
Payroll	\$ 998,549	\$ 1,645,551	\$ 4,950,721	\$ 3,728,102	\$11,322,923
Benefits (direct and in-kind)	253,469	807,263	1,589,398	1,251,692	3,901,822
On-air fundraising and member development	767,945	-	-	-	767,945
Public relations and promotion	3,612	1,468	213,915	-	218,995
Special projects	103,243	-	197,190	-	300,433
Vehicles/utilities	-	503	41,343	541,973	583,819
Travel and conference	82,121	1,719	5,513	1,132	90,485
Telephone/postage - allocated	37,784	63,378	190,648	144,832	436,642
Occupancy (in-kind) - allocated	65,197	109,362	649,314	248,375	1,072,248
Information systems/OTIS	-	62,122	16,850	20,320	99,292
Technical/professional services	49,302	168,965	288,391	146,809	653,467
Transition costs	-	-	-	-	92,140
PBS and NPR services	-	-	595,702	-	595,702
Program acquisition	-	-	934,921	-	934,921
Building and vehicle maintenance	-	929,209	1,399	18,775	949,383
Maintenance, grounds and equipment (direct and in-kind)	130,196	503,218	1,491,149	1,710,538	3,835,101
WFD and digital classroom	-	-	460,473	-	460,473
NJN radio	-	-	217,497	-	217,497
Media productions	-	-	213,219	-	213,219
Local production	-	-	655,882	-	655,882
Interest expense (in-kind) - allocated	37,767	63,350	190,496	143,875	435,488
Depreciation	-	15,000	-	776,297	791,297
Other administrative costs	75,529	206,037	19,812	-	301,378
Totals, year ended June 30, 2010	\$ 2,604,714	\$ 4,577,145	\$ 12,923,833	\$ 8,732,720	\$28,838,412
Totals, year ended June 30, 2009	\$ 3,118,526	\$ 5,026,480	\$ 14,062,852	\$ 9,261,724	\$31,469,582



NEW JERSEY PUBLIC BROADCASTING AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING  
Year Ended June 30, 2010

Identifying Number: 2009-1

Finding: The State's transaction-based financial reporting process does not enable the Authority to report revenue, expenses, assets, liabilities, or net assets in the form of a trial balance supported by a double entry general ledger accounting system. Accordingly, the Authority cannot produce an accrual "GAAP" basis balance sheet or statement of activities at any reporting period, nor can it efficiently monitor its financial position and activities on a monthly or cumulative basis as a quasi-independent entity. This finding is exclusive of the FNJPB.

Corrective Action Taken: As indicated in the Schedule of Finding and Response, the Authority acknowledged that under the constraints of its present financial reporting system, it cannot produce accrual basis financial statements in accordance with accounting principles generally accepted in the United States of America on a monthly basis; which our auditors have previously noted. In response to a July 31, 2008, letter from the State Treasurer and at the direction of the audit committee, the Authority commenced working with the Treasury Department and the state's Office of Information Technology ("OIT") in the interest of developing a GAAP compliant reporting system as well as to the feasibility of implementing the Great Plains Dynamics general ledger and cost accounting system, which is the accounting system the FNJPB uses, in meeting the needs of the Authority. However, this work was suspended on July 22, 2010 under the Treasury's directive until the future status of the Authority is determined.

# NEW JERSEY PUBLIC BROADCASTING AUTHORITY

## SCHEDULE OF FINDING AND RESPONSE

Year Ended June 30, 2010

### Section II - Financial Statement Findings

2010-1

**Criteria:** The State's transaction-based financial reporting process does not enable the Authority to report revenue, expenses, assets, liabilities, or net assets in the form of a trial balance supported by a double entry general ledger accounting system. Accordingly, the Authority cannot produce an accrual "GAAP" basis statement of net assets or statement of activities at or for any reporting period, nor can it efficiently monitor its financial position and activities on a monthly or cumulative basis as a quasi-independent entity. This finding is exclusive of the FNJPB.

**Condition:** The Authority does not post transactions to a general ledger system; instead it posts State system generated activity to spreadsheets and revises the spreadsheets as new transactions occur. The Authority then takes the spreadsheet balances and posts them to a trial balance.

**Cause:** The Authority has recognized for several years that a general ledger package is desirable and has researched and identified appropriate software packages. However, due to budget and staffing constraints, the Authority has not been able to obtain and implement a general ledger package with the capability to provide timely periodic financial information both in report form and by export to spreadsheets.

**Effect:** The current system is cumbersome and time consuming for audits and reconciliations. It is susceptible to errors because it is not self balancing in a double entry format; it does not include all reportable activity. Expenses are also susceptible to misclassifications and thus may result in discrepancies with comparative information.

**Recommendation:** The Authority should implement a general ledger package with the capability to provide timely periodic financial information.

**Response:** The Authority acknowledges that under the constraints of its present financial reporting system, it cannot produce an accrual, GAAP basis statement of net assets and annual financial report per the auditor's findings. Our auditors have previously identified, and the Authority has previously acknowledged this deficiency during past audit periods.

At the direction of the audit committee, the Authority has done research on several financial reporting options offered through the State's Office of Information Technology ("OIT") and has considered utilizing the FNJPB existing general ledger system. The Authority has been working with the Department of Treasury and OIT to implement a payroll management and financial reporting system that will report financial data reliability in accordance with GAAP, until it was suspended on July 22, 2010 under the direction of the State Treasurer.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners of  
New Jersey Public Broadcasting Authority

We have audited the financial statements of New Jersey Public Broadcasting Authority (the "Authority") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements prescribed by the State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be a material weakness as item 2010-1.

- AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGILDRAY NETWORK
- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of finding and response. We did not audit the Authority's response accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners, the audit committee, others within the entity, State of New Jersey, and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

*Mercaderes, P.C.*  
*Certified Public Accountant*

November 17, 2010